



Chris J. Murphy  
President & Chief Executive Officer

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20051  
RE: Docket No. R-1181

VIA FACSIMILE: Office of the Secretary (202) 452-3819

**RE:** Proposed Revisions to the Community Reinvestment Act Regulations

Dear Ms. Johnson:

I am writing to support the federal bank regulatory agencies' (Agencies) proposal to ~~enlarge~~ the number of banks and saving associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to increase the ~~asset~~ threshold from \$250 million to \$500 million and to eliminate any ~~consideration~~ of whether the small institution is owned by a holding company. This proposal is clearly a major step towards an appropriate implementation of the Community Reinvestment Act and should greatly reduce regulatory burden on those institutions newly made eligible for the small institution ~~exa~~mination, and I strongly support both of them.

When the CRA regulations were rewritten in 1995, the banking industry ~~recommended~~ that community banks of at least \$500 million be eligible ~~for~~ a less burdensome small institution examination. The most significant improvement in the new regulations was the ~~addition~~ of that small institution CRA examination, which actually did what the Act required: had examiners, during their examination of the bank, look at the bank's loans and assess whether the bank ~~was~~ helping to meet the credit needs of the banks entire community. It imposed no ~~investment~~ requirement on small banks, since the Act is about credit not investment. It added no data reporting requirements on small banks, fulfilling the promise of the Act's sponsor, Senator Proxmire, that there would be no additional paperwork or recordkeeping burden on banks if the Act passed. And it created a simple, understandable assessment test of the bank's ~~record~~ of providing credit in its community: the test considers the institution's loan-to-deposit ratio; the percentage of loans in ~~its~~ assessment areas; its record of lending to borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of its loans; and its record of taking ~~action~~, if warranted, in response to written complaints about its ~~performance~~ in helping to meet credit needs in its assessment areas.

Since then, the regulatory burden on small banks has only grown larger, including ~~massive new~~ reporting requirements under HMDA, the USA Patriot Act and the privacy provisions of the Gramm-Leach-Bliley Act. But the nature of community banks has not changed. When a community bank must comply with the requirements of the large institution CRA examination, the costs to and burdens on that community bank increase dramatically. In looking at my bank, converting to the large institution examination requires that we **(enter an estimate of additional expense, new personnel, or other costs imposed by this change)**. This imposition of a dramatically higher regulatory burden drains both money and personnel away from helping to meet the credit needs of ~~the~~ institution's **community**.

I believe that it ~~is~~ as true today as it was in 1995 and in 1977 when Congress enacted CRA, that a community bank meets the credit needs of its community if it makes a certain amount of loans relative to deposits taken. A community bank is typically non-complex; it takes ~~deposits and~~ makes loans. Its business activities are usually focused on small, defined geographic areas where the bank is known in the community. The small institution examination accurately captures

the information necessary for examiners to assess whether a community bank **is** helping to meet the credit needs of **its** community, and nothing more **is** required to satisfy the Act.

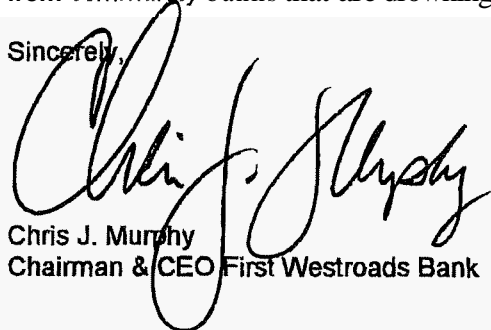
As the Agencies state in their proposal, raising the small institution CRA examination **threshold** to \$500 makes numerically more community banks eligible. However, in reality raising **the** asset threshold to \$500 million and eliminating the holding company limitation would retain **the** percentage of industry assets subject to the large retail institution test. It would decline only slightly, from a little more than 90% to a little less than 90%. That decline, though **slight**, would more closely align the current distribution of assets between small and large banks with the distribution that **was** anticipated when the Agencies adopted the definition of 'small institution.' **Thus**, the Agencies, in revising the CRA regulation, are really **just** preserving the status quo of the regulation, which has been altered by a drastic decline in the number **of** banks, inflation and an enormous increase in the size of large banks. I believe that the Agencies need to provide greater relief to community banks than just preserve the status quo of this regulation.

**While** the small institution test was the most significant improvement of the revised **CRA**, it **was** wrong to limit its application to only banks below \$250 million in assets, depriving many community banks from any regulatory relief. Currently, a bank with more than **\$250** million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits as contemplated by the Community Reinvestment **Act**. In today's banking market, even a \$500 million bank often has only a handful **of** branches. I recommend raising the asset threshold for the small institution examination to at least \$1 billion. Raising the limit to **\$1 billion** is appropriate for two reasons. First, keeping the focus **of** small institutions on lending, which the small institution examination does, would be entirely consistent with the purpose of the Community Reinvestment **Act**, which **is** to ensure that the Agencies evaluate how banks help to meet the credit needs of the communities they serve.

Second, raising the limit to \$1 billion will have only a small effect on the amount of **total** industry assets covered under the more comprehensive large bank test. According to the Agencies' own findings, raising the limit from **\$250** to \$500 million would reduce total industry assets covered by the large bank test by less than one percent. According to December **31, 2003**, Call Report data, raising the limit to \$1 billion will reduce the amount **of** assets subject to the much **more** burdensome large institution test by only **4%** (to about **85%**). Yet, the additional relief provided would, again, be substantial, reducing the compliance burden on more than **500** additional banks and savings associations (compared to a **\$500** million limit). Accordingly, I urge the Agencies to raise the limit to at least \$1 billion, providing significant regulatory relief while, to quote the Agencies in the proposal, not diminishing in any way the obligation of all insured depository institutions subject to CRA to help meet the credit needs of their communities. Instead, the changes are meant only to address the regulatory burden associated with evaluating institutions under **CRA**."

In conclusion, I strongly support increasing the asset-size **of** banks eligible for the **small** bank streamlined CRA examination process as a vitally important step in revising and improving the CRA regulations and in reducing regulatory burden. I also support eliminating the separate holding company qualification for the small institution examination, since it places small community banks that are part of a large holding company at a disadvantage to their peers and has no legal basis in the Act. While community banks, of course, **still** will be examined under **CRA** for their record **of** helping to meet the credit needs of their communities, this change will eliminate some **of** the most problematic and burdensome elements **of** the current CRA regulation from community banks that are drowning in regulatory red-tape.

Sincerely,



Chris J. Murphy  
Chairman & CEO First Westroads Bank